ABITIBI

Annual Report 1969

Our Cover shows the forested location of drill hole No. 11 on our Block 7 freehold land near Sturgeon Lake in north-western Ontario.

Annual Report for the year ended December 31,1969

Abitibi Paper Company Ltd.

Head Office: Toronto-Dominion Centre
Toronto 111, Canada

Comparative Summary

	1969	1968
Net sales	$ 287,000,000	$ 255,588,000
Depreciation and depletion	$ 16,076,000	$ 15,078,000
Taxes on income	$ 12,307,000	$ 11,490,000
Extraordinary income—net	$ —	$ 411,000
Net earnings	$ 12,141,000	$ 11,028,000
Dividends declared on preferred shares	$ 750,000	$ 323,000
Net earnings per common share	64¢	60¢
Dividends declared on common shares	$ 6,430,000	$ 8,157,000
Per common share	36¢	46¢
Invested in capital assets	$ 24,712,000	$ 16,204,000
Working capital	$ 64,505,000	$ 61,685,000
Long term debt, net of current portion	$ 110,221,000	$ 105,704,000
Shareholders' equity — preferred shares	$ 10,062,000	$ 10,062,000
Shareholders' equity — common shares	$ 184,695,000	$ 179,661,000
Number of shareholders — common	35,324	37,412

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The Annual Meeting of Shareholders will be held at the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Thursday, April 16, 1970 at 10:30 a.m. Toronto time.

On peut obtenir ce rapport annuel en français sur demande.

Directors

Douglas W. Ambridge,
Honorary Chairman,
Abitibi Paper Company Ltd.,
Toronto, Canada

Thomas J. Bell,
President and Chief Executive Officer,
Abitibi Paper Company Ltd.,
Toronto, Canada

Bertram D. Coleman,
President,
Drexel Harriman Ripley Incorporated,
New York, U.S.A.

James M. Cox, Jr.,
Chairman of the Board,
Cox Enterprises Inc., Dayton, Ohio, U.S.A.

C. Antoine Geoffrion, Q.C.,
Geoffrion & Prud'homme, Montreal, Canada

Allan Graydon, Q.C.,
Blake, Cassels & Graydon, Toronto, Canada

Charles L. Gundy,
Chairman, Wood Gundy Securities Limited,
Toronto, Canada

Leonard G. Lumbers,
President, Noranda Manufacturing Ltd.,
Toronto, Canada

T. Rodgie McLagan,
Chairman of the Board,
Canada Steamship Lines Limited,
Montreal, Canada

General Lauris Norstad,
Chairman of the Board,
Owens-Corning Fiberglas Corporation,
Toledo, Ohio, U.S.A.

Theodore O. Peterson,
Chairman of the Board,
Investors Mutual of Canada Ltd.,
Winnipeg, Canada

Robert H. Reid,
President and Managing Director,
London Life Insurance Company,
London, Canada

Paul E. Roberts,
Chairman of the Board,
Abitibi Paper Company Ltd.,
Toronto, Canada

C. Harry Rosier,
Executive Vice-President,
Abitibi Paper Company Ltd.,
Toronto, Canada

The Rt. Hon. Lord Thomson of Fleet,
Publisher, London, England

John A. Tory, Q.C.,
Tory, Tory, DesLauriers & Binnington,
Toronto, Canada

Honorary Directors:
Harry J. Carmichael, Joseph P. Ripley

Officers

Thomas J. Bell,
President and Chief Executive Officer

Paul E. Roberts,
Chairman of the Board

C. Harry Rosier,
Executive Vice-President

George M. Brain,
Senior Vice-President — Fine Papers Group

Robert E. E. Costello,
Senior Vice-President — Operations

J. Elliot Cottrelle,
Senior Vice-President — Sales
(Newsprint and Pulp)

Robert C. Gimlin,
Senior Vice-President —
Board Products Group

W. Stanley Rothwell, F.C.A.,
Senior Vice-President — Finance

E. Edward Grainger,
Vice-President — Woodlands

John E. Haire,
Vice-President — Corporate Development

T. Newman McLenaghen,
Vice-President — Manufacturing
(Newsprint and Pulp)

James B. Papoe,
Vice-President — Research and Engineering

James Flintoft, Q.C.,
Secretary

Roy Curtis, C.A.,
Comptroller

William H. S. Pote,
Treasurer

Michael D. Thompson,
Assistant Secretary

R. Allan Thompson,
Assistant Treasurer

Robert A. Cook,
Assistant Treasurer

Transfer Agents & Registrars

Montreal Trust Company,
Toronto, Montreal, Vancouver,
Calgary, Regina, Winnipeg
and Halifax, Canada

First National City Bank,
New York, U.S.A. (Transfer Agent)

Bankers Trust Company,
New York, U.S.A. (Registrar)

Auditors

Price Waterhouse & Co.,
Toronto, Canada

T. J. Bell — President

Industry production of pulp and paper products in North America and elsewhere in the world increased during 1969 in response to rising consumer demand. Production gains in both newsprint and pulp were better than most forecasts issued at the start of the year. Price increases were modest in relation to rising costs. Companies in the fine paper industry in Canada were forced to accept an unpalatable combination of rising costs and lower selling prices for many products. Markets for building materials were affected throughout the year by tight money conditions and lack of growth in residential construction.

Net sales by Abitibi totalled $287,-000,000, an increase of more than 12%. Our greatest gain came in sales of newsprint from our six mills in Canada and the new plant at Augusta, Georgia, that joined the Abitibi newsprint group in March of 1968. A comparison of net sales by principal product groups with those of the prior year is as follows:

	1969	1968
Newsprint, pulp and groundwood specialty papers	$155,269,000	132,747,000
Fine papers including merchant and converting operations	69,680,000	66,451,000
Board products and corrugated containers	62,051,000	56,390,000
	$287,000,000	255,588,000

Net earnings from all sources, before dividends on preferred shares, amounted to $12,141,082 compared with $11,028,197 in 1968, an increase of 10%. A comparison of net earnings by quarters with the previous year shows the following:

	1969	1968
First quarter	$ 3,033,781	2,453,505
Second quarter	3,639,703	3,405,068
Third quarter	2,226,296	1,300,064
Fourth quarter	3,241,302	3,458,299
Extraordinary income —net	—	411,261
	$12,141,082	11,028,197

In commenting on earnings for the nine months to September 30th, we reported

"the company does not regard the earnings increase as adequate in relation to the substantial increase in sales volume and the fact that last year's third quarter earnings were depressed because of strikes". This comment applies equally to results for the full year.

The return in 1969 on the total debt and equity capital invested in Abitibi amounts to only 5%, about the same as in 1968. Having regard to the current high level of interest rates, this return must be viewed as inadequate in a capital intensive industry such as ours. If we are to attract the capital that will be needed in coming years to serve the growth needs of our customers, it is essential that the return on our invested capital be improved to a level at least equal to current interest rates.

Dividends on common shares were continued throughout 1969 at the annual rate of 36¢ per share. Dividend payments were made quarterly on the first days of January, April, July and October.

Working capital at the close of the year amounted to $64,505,000, an increase of $2,820,000 over 1968. A larger share of this working capital is invested in accounts receivable as a consequence of higher sales and tight money conditions now common to all markets. Outstanding long term debt increased by $4,516,000, being the net between repayments of $5,801,000 during the year and new debt of $10,317,000 incurred mostly in the expansion of manufacturing facilities in the United States.

Mineral discovery

Early in October it was announced that diamond drilling on Abitibi freehold land north of Thunder Bay, Ontario, had located an orebody of significant potential value. Exploration on this property is being carried out by Mattagami Lake Mines Limited under an agreement with Abitibi. Ownership of the orebody is to be transferred to a new company to be owned 60% by Mattagami and 40% by Abitibi. Mattagami is responsible for the first $600,000 of exploration and development costs.

The initial find by Mattagami has been followed by an active program of diamond drilling and this is continuing. Results to date indicate a profitable high grade orebody containing copper, zinc, silver, lead and gold. While final evaluation must await further reports on a continuing intensive drilling program, it appears that a profitable mine will result from this discovery.

Substantial increase in newsprint shipments

The increase in newsprint consumption on a world basis was greater than the increase in manufacturing capacity and a continuation of this trend is expected in 1970. Shipments by the Canadian industry to the United States market showed an increase in contrast to decreases in each of the prior two years.

Newsprint production by Abitibi mills increased by more than 16% to a total for the year of 1,078,000 tons, a new high for Abitibi. Our capacity is now estimated at 1,200,000 tons annually on a full seven-day per week basis for all mills.

A number of steps were taken to further improve newsprint quality in response to customer requirements. At Fort William, the installation of bleaching facilities was successful in providing a consistent brightness in offset newsprint. Other divisions have been or are being similarly equipped. A new type ventilation system, and automatic moisture and basis weight controls, improved newsprint quality at Pine Falls. Plans are being accelerated to install this newly-developed equipment at other newsprint divisions.

Manufacturing efficiencies were well maintained or improved by a carefully controlled capital expenditure program. At Thunder Bay we installed a new barking drum, a new bark disposal system and greatly improved wood handling facilities. The newsprint machine at Augusta is now operating regularly at better than 2,700 feet per minute.

Increases of up to $5.00 per ton in the price of newsprint were introduced

effective January 1, 1970. For most consumers the increase is about 3%. Cost increases for pulpwood, wages, electric power, freight on shipments and quality improvements will take up all of the gain in selling prices.

Shortly after the close of 1969 we announced plans to install a new high-speed paper machine at Iroquois Falls including in the design the unique "Papriformer" twin-wire forming unit. The "Papriformer", offering improved formation and uniform finish, is a development of the Pulp and Paper Research Institute of Canada and is to be manufactured by Dominion Engineering Works Limited. This project will increase newsprint capacity at Iroquois Falls by 20%, or 60,000 tons per annum, at an estimated cost of $9,000,000. Newsprint from this machine will be especially suitable for offset printing with improved formation and equal surface characteristics on both sides. Installation is to be completed early in 1971.

Increase in pulp production

World pulp markets changed during the past year from an apparent oversupply position to one where, by year end, demand and supply were in approximate balance. Firming demand resulted in improved prices for producers.

Kraft pulp output from our Smooth Rock Falls mill set a new record and shipments to our fine paper mills accounted for almost one third of total production. This mill operated well throughout the year with the new woodroom contributing to reduced costs as planned.

Selling prices for kraft pulp moved higher at the start of 1970 and demand is continuing firm. We expect capacity or near capacity operations throughout the coming year.

To achieve maximum utilization of wood resources in the area, we are installing a "Chip-N-Saw" mill at Smooth Rock Falls with an annual capacity of more than twenty-five million board feet. The product will be kiln-dried, packaged two-by-fours in precision cut lengths at the rate of 100,000 board feet per day. Chips from this mill will be used as furnish to the pulp mill. The cost will be more than $2,000,000 with start-up scheduled for early in the second quarter of 1970.

Difficult year for fine papers

While Canadian fine paper consumption displayed a normal annual growth rate of about 5%, there was an increase in the share of market served by imported papers with the major impact concentrated in the last six months. Shipments to domestic consumers by Canadian mills were affected by unsettled markets and remained at 1968 levels.

In March the Canadian Post Office raised its rates significantly with an immediate impact on the volume of fine papers used in publications and advertising material distributed through the mails. Many publications reduced page sizes, converted to lighter weight papers, reduced the number of issues and some permanently ceased operations. Fine paper production, particularly machine coated grades, suffered accordingly.

In June, as an anti-inflation measure, the Canadian Government enacted the immediate implementation of fine paper tariff reductions that had previously been scheduled to take place in instalments over a period of three years. In this connection the Minister of Finance stated "when failure to counter inflation holds its own risks for our competitive position, more time is not necessary for our producers to adapt themselves to these tariffs". Canadian fine paper producers had been restructuring operations in stages to adjust to the previously announced timetable. The unexpected implementation of tariff reductions resulted in substantially increased imports in subsequent months and lower prices for our products.

For Abitibi Provincial, not fully recovered from the prior year's strikes, 1969 was a difficult year indeed. While we held our share of market for fine papers

produced in Canada, we failed to achieve our objectives in volumes, operating rates and earnings.

To cope with the situation as it exists, we have discontinued some grades, reduced selling prices and, as a cost reduction measure, accelerated plans to lengthen production runs. We anticipate improving markets in Canada during 1970 and are looking for increased domestic volume. All major elements of our cost structure will be higher than in 1969.

Hilroy Envelopes & Stationery Limited and related companies achieved a satisfactory increase in sales volume despite somewhat uncertain market conditions. This group of companies is well organized and staffed. Their products deserve the acceptance and confidence they receive in Canadian markets.

Inter City Papers Limited maintained its position in the merchant trade in eastern Canada. A warehouse extension at the Whyte-Hooke plant in Toronto improved service facilities and contributed to increased sales from warehouse stocks.

Start-up costs affect board products outcome

Net sales of $62,051,000 by the Board Products Group show an increase of 10% over the prior year reflecting sales gains in building materials in the United States and corrugating medium and containers in Canada.

Earnings were below those of the prior year due principally to difficulties in restoring operations at Alpena to the efficiency levels prevailing in this highly automated plant prior to increasing its capacity. Problems are now substantially overcome and operating efficiencies are approaching target levels. The Chicago and Cucamonga plants operated well throughout the year with Cucamonga showing marked improvement over the prior year.

Construction of the new hardboard plant at Roaring River, North Carolina, is nearing completion with operations planned to start early in the second half of 1970. The principal products of this plant are expected to be primed and prefinished exterior siding although facilities will be flexible so that product output may be varied to suit market conditions.

Markets for our Canadian building materials showed little improvement over 1968 and were not buoyant. To complement and expand the present product line, facilities are being installed at Sturgeon Falls to start manufacture of primed exterior siding in the second quarter of 1970 and a factory prefinished siding by year end. For several years our Sturgeon Falls plant has produced the substrate for this product with further processing and marketing by Abitibi Corporation in the United States.

Production and sale of corrugating medium reached record levels and Abitibi Containers had a record year with growth again exceeding the industry average in the markets served by this company.

Water pollution abatement

The production of pulp and paper requires the use and re-use of large quantities of water — about 30,000 to 50,000 gallons per ton of product. After screening and recovery treatment, the water so used is returned to the lake or river from which it was obtained. Pollution abatement is the reduction to an acceptable level of any suspended solids and waste matter this water may contain. This is accomplished by in-plant treatment, external clarification processes and other measures involving investment of capital funds and higher operating costs.

Abitibi has been engaged for many years on a continuing program of pollution abatement. Effluent improvement committees are active at all mill locations and substantial progress has been made. Many of the remaining problems are complex, costly and time-consuming to overcome. In some instances additional research is required to solve technological aspects. Our

This spread depicts various scenes at the drilling operations by Mattagami Lake Mines on our Block 7 holdings, 130 miles northwest of Thunder Bay, Ontario.

capital expenditures for this purpose have exceeded $17,000,000 in the past ten years.

Objectives for the further reduction of wastes in plant effluents have been established by government authorities and steady progress is being made toward the achievement of these objectives.

The industry has asked governments for financial incentives to accompany the more stringent pollution regulations now in force and anticipated. Measures asked for include federal grants of one third of capital costs, liberalization of depreciation regulations, elimination of sales taxes on purchases of equipment and of municipal taxes on capital facilities. While such incentives have not yet been granted, we are hopeful they will be. In our view, taxation should not increase the cost of solving an acute social problem.

Woodlands operations

During the past year we advanced plans for changes in our leasehold timber limits in Canada based on an intensive review of the productive potential of these holdings in relation to our current and future pulpwood requirements. In Quebec, we returned 800 square miles of undeveloped limits to the Province for administration under a development plan that will furnish pulpwood to meet our requirements and the needs of others. In Ontario, we are in process of reducing and consolidating leasehold lands by the release of some holdings with low development potential for us and the acquisition of rights to pulpwood on contiguous areas that tie in more logically with future development plans. These measures, being worked out with the co-operation of government authorities, will improve the utilization of publicly-owned land.

Capital expenditures in Canada for mechanical equipment, access roads and cutting camps amounted to $2,804,000 compared with $1,689,000 in 1968. At the Lakehead division we established new operating facilities for production and

rail delivery of pulpwood from freehold lands north of Thunder Bay and we commenced construction of a major road artery that ultimately will provide access to 3,000,000 cords of pulpwood for delivery by truck. These and other similar projects improve the pulpwood delivery system and reduce the need for large inventories at consuming mills.

Operating conditions in our woodlands were generally favourable throughout the year. Losses by forest fires and other causes were again negligible.

Mineral potential

As explained in previous annual reports, Abitibi is the owner of mineral and surface rights in Ontario on 216 square miles of forest lands north of Timmins and 800 square miles northwest of Thunder Bay. While these lands were acquired primarily for their forest values, their mineral potential is attracting increasing interest.

The possible mineral values on our lands north of Timmins have been of interest for some years because of the proximity to the Texas Gulf discovery but, until recently, there has been little outside interest in our holdings in northwestern Ontario.

The exploration agreement with Mattagami Lake Mines Limited, referred to on page 4, embraces an area of 36 square miles about 130 miles from Thunder Bay. The strike by Mattagami is of great significance because of the interest Abitibi holds in the orebody now being delineated and the potential of other Abitibi freehold lands in that area.

Exploration of the 216 square mile holding north of Timmins by experienced mining interests is continuing under the terms of an agreement entered into in 1966. This is the only exploration agreement in effect at this date other than the agreement with Mattagami.

Employee relations

At the close of the year, Abitibi and subsidiary companies had slightly more

Abitibi Corporation's Roaring River, North Carolina, hardboard plant as it nears completion — scheduled for production in 1970. The elaborate lagoon system in the foreground is part of the effluent treatment process.

than 11,000 employees, about the same number as a year ago. Close to 10,000 are employed in Canada where the average employee is 40 years of age with more than ten years' service.

Abitibi employees participate in many company-sponsored or administered benefit plans that provide protection during working years and income on retirement. It is becoming increasingly complicated for the individual to keep abreast of coverages for personal financial planning purposes. As a service to participating employees we have under way a computer-based program to provide current information on benefits that accrue under these plans. Statements will be mailed to most employees in the spring of 1970.

Most union agreements in our Canadian pulp and paper mills expire on April 30, 1970 and those with woods workers in Ontario and Manitoba expire later in the year. These contracts are to be renegotiated in the coming months and the resulting agreements will have an important influence on our future operations.

On the occasion of the recent annual meeting of the Canadian Pulp and Paper Association, Mr. R. M. Fowler, President, made these comments: "For years this industry has been providing better capital tools for the production of pulp and paper, and massive capital investment to raise productivity and efficiency must continue. The simple fact is that productivity gains have not matched those of our competitors in other countries. The return on investment has shrunk steadily and rapidly in recent years. There is no pool of profits available to continue to pay labour increases in excess of improvements in productivity. Today our workers stand near the top in comparison with those in other major Canadian industries. This is where, in my opinion, they deserve to be but they have no catching up to do. We must have regard to the public interests at stake and, if we do, can give a constructive lead to labour relations in

Canada during a very critical and dangerous year."

No one person or small group can take credit for the progress made by a large company toward the achievement of its goals. Progress is the result of a team effort by all employees with each of them making a contribution and taking pride in doing so. Abitibi progressed in 1969. The Directors recognize and appreciate the contribution made by each individual employee.

Scientific research

Innovation — the exploitation of new technology to serve the needs of society — has become a common word in the many public discussions on national science policy. Scientific research in industry must be followed by innovation if returns are to be realized. Within Abitibi, innovation was particularly emphasized during 1969 through the close collaboration of scientists from our research centre with engineering, production and sales personnel on problems of process improvement, waste treatment and development of new commercial products.

Fine paper products received special emphasis — both established grades and new specialties such as strippable wall and poster papers, food packaging grades and copying papers. Interest in the advancement of newsprint qualities was fully maintained with particular regard to the increasing use of the web offset printing method. Recently developed textured surface finishes on woodgrain panelboard products and prefinished exterior siding enhance the appeal of these versatile products.

Outlook

In assessing the outlook for the coming year we are less optimistic about the near future than we were one year ago. Last year at this time we confidently forecast improvement in both sales and earnings. Both objectives were achieved although the earnings increase was below expectations.

This year we again anticipate an increased volume of business but the outlook for an improvement in earnings is obscured by known and possible cost increases that could result in reduced profit margins.

The further exploration of the mineral discovery of our land northwest of Thunder Bay points to a new dimension for Abitibi shares and will be of continuing interest to shareholders. Results to date must be regarded as most encouraging.

On behalf of the Board,

President and Chief Executive Officer

Toronto, February 10, 1970.

Consolidated Net Earnings

Abitibi Paper Company Ltd. and subsidiary companies

	Year ended December 31, 1969	Year ended December 31, 1968
Revenue:		
Net sales	$287,000,009	$255,587,974
Interest and other income	2,298,932	1,695,622
	289,298,941	257,283,596
Costs and expenses:		
Cost of products sold	217,781,665	193,155,725
Provision for depreciation	15,254,971	14,698,905
Provision for depletion	820,772	379,277
Selling, general and research expenses	20,691,799	17,574,055
Employees' pension plans (note 3)	3,116,740	2,856,260
Interest on bank indebtedness	791,580	797,778
Interest and expense on long term debt	6,393,332	5,714,660
	264,850,859	235,176,660
Earnings before taxes on income	24,448,082	22,106,936
Taxes on income:		
Current	11,422,500	10,332,000
Deferred (note 4)	884,500	1,158,000
	12,307,000	11,490,000
Net earnings from operations	12,141,082	10,616,936
Extraordinary income — net	—	411,261
Net earnings	$ 12,141,082	$ 11,028,197
Per common share	64¢	60¢

Consolidated Retained Earnings

	Year ended December 31, 1969	Year ended December 31, 1968
Retained earnings at beginning of year	$130,873,512	$128,325,909
Net earnings for the year	12,141,082	11,028,197
	143,014,594	139,354,106
Dividends declared on preferred shares	750,000	323,116
Dividends declared on common shares	6,430,010	8,157,478
	7,180,010	8,480,594
Retained earnings at end of year	$135,834,584	$130,873,512

Consolidated Balance Sheet

Assets

	December 31, 1969	December 31, 1968
Current Assets:		
Cash	$ 3,660,986	$ 3,954,129
Short term investments at cost which approximates market	2,088,117	2,931,906
Accounts receivable, less allowance for doubtful accounts	57,721,160	43,247,684
Inventories:		
Finished products, goods in process, materials and supplies at the lower of cost or market	28,068,922	26,488,820
Pulpwood and expenditures on current logging operations at cost	20,829,529	20,104,039
Prepaid insurance and other expenses	1,144,320	1,251,650
	113,513,034	97,978,228
Capital Assets:		
Properties, plant and equipment (note 6)	423,285,816	404,331,627
Less — Accumulated depreciation	217,828,949	207,084,541
	205,456,867	197,247,086
Logging equipment and development at depreciated cost	6,453,822	5,460,222
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of $7,072,088 (1968 — $6,255,316)	26,167,685	27,954,717
	238,078,374	230,662,025
Investments and Other Assets:		
Bonds, debentures and notes	5,432,143	5,111,773
Townsite mortgages and advances	1,646,038	1,617,745
Other investments at cost	2,179,528	2,064,234
Special refundable tax, less current portion	—	170,832
Unamortized discount and expense on long term debt	950,432	1,031,316
Cost of shares of subsidiary companies in excess of book values of underlying net assets (note 2)	21,894,313	21,894,313
	32,102,454	31,890,213
	$383,693,862	$360,530,466

Approved on behalf of the Board:

T. J. Bell, Director

P. E. Roberts, Director

Liabilities

	December 31, 1969	December 31, 1968
Current Liabilities:		
Bank indebtedness	$ 13,754,965	$ 5,676,811
Accounts payable	23,575,117	19,898,719
Dividend payable January 1st	1,607,705	1,606,985
Interest accrued on long term debt	1,168,552	1,217,647
Income and other taxes	4,654,616	3,941,434
Payments due within one year on long term debt	4,247,312	3,951,559
	49,008,267	36,293,155
Long Term Debt: (note 8)		
Abitibi Paper Company Ltd.:		
First Mortgage Sinking Fund Bonds		
Series B, 4¼% due July 15, 1974	3,277,500	3,501,500
Series C, 6¼% due November 15, 1977	5,587,000	6,224,000
Sinking Fund Debentures		
Series A, 5¼% due September 15, 1985 ($17,525,000 U.S.)	18,839,375	19,726,250
Series B, 7¼% due September 15, 1987	15,000,000	15,000,000
Abitibi Corporation:		
5⅛% Instalment Notes, due May 1, 1984 ($12,000,000 U.S.)	12,906,000	13,551,300
Abitibi Carolina Corporation:		
7⅛% Promissory Notes, due June 30, 1978 ($6,500,000 U.S.)	6,996,270	1,072,200
Abitibi Holdings, Inc. and subsidiary companies:		
4% Promissory Note, due March 22, 1973 ($5,000,000 U.S.)	5,427,500	5,427,500
6½% Instalment Note, due March 31, 1973 ($4,500,000 U.S.)	4,884,750	5,427,500
5½% Instalment Note, due December 1, 1986 ($17,000,000 U.S.)	18,453,500	19,539,000
7⅜% Guaranteed Notes, due May 15, 1988 ($17,000,000 U.S.)	18,453,500	18,453,500
5¼% Promissory Note, due May 28, 1991 ($3,081,681 U.S.)	3,321,117	—
Miscellaneous notes due 1970 to 1976 ($683,055 U.S.)	741,456	1,017,396
Other obligations	580,493	715,886
	114,468,461	109,656,032
Less — Amount included with current liabilities (note 7)	4,247,312	3,951,559
	110,221,149	105,704,473
Deferred Taxes on Income (note 4)	29,707,430	28,809,144

Shareholders' Equity

Preferred Shares:		
Authorized: 1,000,000 shares par value $50 issuable in series		
Issued: 200,000 7½% Cumulative Redeemable Preferred Shares, Series A	10,000,000	10,000,000
Common Shares: (note 9)		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 17,863,384 shares (1968 — 17,855,384 shares)	48,922,432	48,850,182
Retained Earnings (note 10)	135,834,584	130,873,512
	194,757,016	189,723,694
	$383,693,862	$360,530,466

Consolidated Statement of Source and Application of Funds

Abitibi Paper Company Ltd. and subsidiary companies

	Year ended December 31, 1969	Year ended December 31, 1968
Source of Funds:		
Net earnings from operations	$ 12,141,082	$ 10,616,936
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion	16,075,743	15,078,182
Deferred taxes on income	884,500	1,158,000
Discount and expense on long term debt	71,946	64,321
Funds derived from operations	29,173,271	26,917,439
Increase in long term debt	10,317,387	30,504,275
Sale of preferred shares	—	10,000,000
Disposal of capital assets	1,241,419	1,472,604
Common shares issued under option agreements	72,250	—
Decrease in miscellaneous investments	—	279,326
Other items — net	22,724	—
	40,827,051	69,173,644
Application of Funds:		
Invested in capital assets	24,711,911	16,203,829
Retirement of long term debt	5,800,711	5,377,330
Increase in miscellaneous investments	314,725	—
Dividends declared on preferred shares	750,000	323,116
Dividends declared on common shares	6,430,010	8,157,478
Funds invested in shares of Hilroy Envelopes & Stationery Limited, Cox Newsprint, Inc. and Cox Woodlands Company net of working capital acquired of $8,655,145	—	33,764,111
Note: These acquisitions also involved the issue of 450,000 common shares of Abitibi Paper Company Ltd. valued at $3,901,875		
Net expenses of preferred share issue	—	432,300
Other items — net	—	642,086
	38,007,357	64,900,250
Increase in working capital	2,819,694	4,273,394
Working capital at beginning of year	61,685,073	57,411,679
Working Capital at End of Year	$ 64,504,767	$ 61,685,073

Notes to Consolidated Financial Statements

1. Balances and transactions in other currencies have been restated in Canadian dollars as follows:

> Current assets and current liabilities at exchange rates in effect at December 31st; capital assets at rates in effect at dates of acquisition; long term debt at rates in effect when debt incurred; net sales and expenses of United States subsidiary companies at average rates for the period except for depreciation provisions which are on the same basis as the related capital assets.

2. The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and its subsidiary companies. Comparative figures for 1968 include the results of operations of Hilroy Envelopes & Stationery Limited and its subsidiary companies from January 31, 1968, Cox Newsprint, Inc. from March 20, 1968 and Cox Woodlands Company from March 22, 1968, their effective dates of acquisition. The amount of $21,894,313 shown on the consolidated balance sheet represents the difference between the cost of the investment in shares of these companies and the book value of the underlying net assets at dates of acquisition. It is not intended that this difference will be amortized.

3. The amount charged to earnings in respect of employees' pension plans includes past service costs resulting from retroactive improvements of benefits instituted in 1963 and 1968. Applicable costs are being funded in annual instalments over a period of 20 years that commenced in 1963. Based on the most recent actuarial report, the single-sum liability for unfunded pension benefits is estimated at $3,000,000 at December 31, 1969.

4. It is the companies' general practice to claim maximum depreciation allowances for income tax purposes and such allowances for 1969 are in excess of depreciation provided in the accounts. The resulting reduction in income taxes currently payable has been charged against earnings and included in the total set aside on the balance sheet as deferred taxes on income.

5. Total remuneration of directors and senior officers in 1969 was $814,056 including remuneration of $318,085 to directors (as directors and as officers).

6. Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of $6,340,770 at December 31, 1969 included at appraised values as at April 30, 1946 as reported by Coverdale & Colpitts, Consulting Engineers.

7. Sinking fund and instalment payment obligations for 1970 on long term debt, including payments based on 1969 earnings, amount to $4,756,897 of which $509,585 has been discharged by prior purchase and redemption of first mortgage bonds.

8. Abitibi Paper Company Ltd. has effectively guaranteed payment of the outstanding long term debt of subsidiary companies amounting to $45,000,000 U.S. at December 31, 1969. Its guarantee of the 7⅜% Guaranteed Notes of Abitibi Holdings, Inc. is secured by the pledge of $17,000,000 U.S. principal amount of 7⅜% Debentures, Series C.

9. A total of 8,000 common shares valued at $72,250 were issued during the year under the Key Employees' Stock Option Plan. Of the authorized and unissued common shares, 541,100 shares are reserved under the Key Employees' Stock Option Plan. Options granted under this plan are for terms of up to ten years at market value at date of grant and are normally exercisable in instalments upon fulfillment of service conditions. At December 31, 1969 options were outstanding on a total of 399,700 shares at prices ranging from $7.9375 to $10.75 per share of which options covering 334,700 shares were held by officers of the company.

10. Covenants entered into in connection with the issue of debentures and preferred shares include certain restrictions on the payment of dividends. Under the most restrictive of these provisions, dividends on common shares subsequent to December 31, 1967 may not be more than consolidated net income earned after that date plus $15,000,000.

11. A preliminary prospectus dated December 23, 1969 has been filed with securities commissions in Canada in connection with a possible public offering of Sinking Fund Debentures Series D.

Auditors' Report

To the Shareholders of ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1969 and the consolidated statements of net earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of operations and source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Toronto, February 9, 1970.

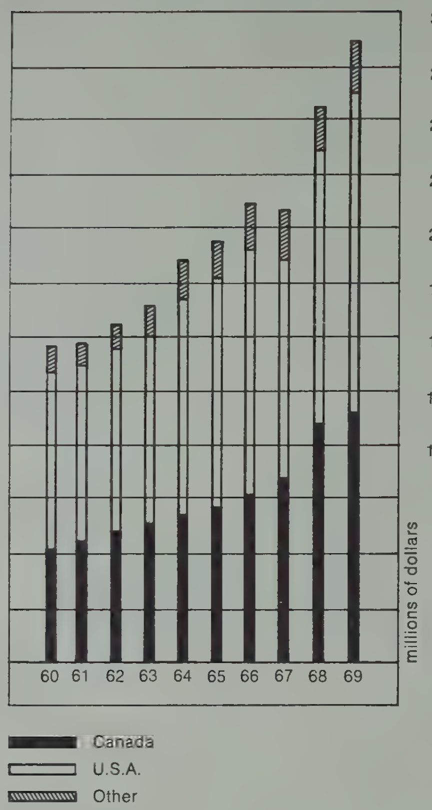
Ten Year Review (all amounts stated in thousands of dollars other than per share calculations)

Abitibi Paper Company Ltd. and subsidiary companies

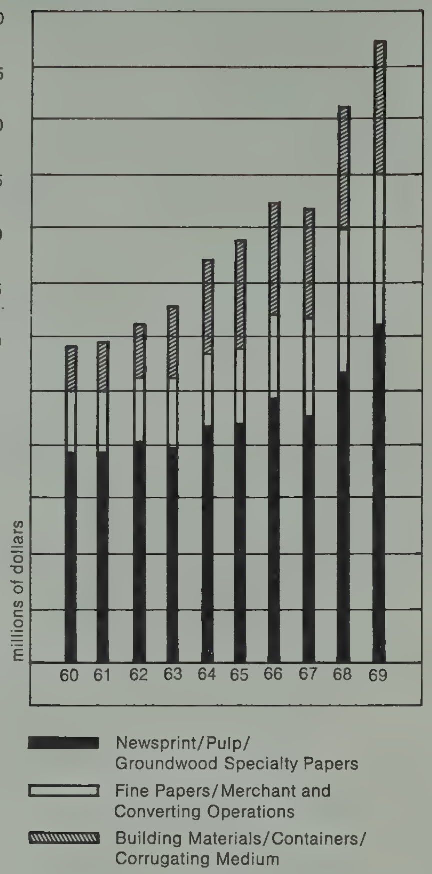
	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Sales and Earnings										
Net sales	$287,000	$255,588	$209,303	$211,167	$194,411	$184,709	$164,576	$156,006	$147,587	$146,340
Depreciation and depletion	16,076	15,078	12,284	11,599	10,486	10,142	9,854	10,370	10,289	10,464
Earnings before taxes on income	24,448	22,107	24,909	31,033	32,896	35,432	31,248	31,275	28,268	26,066
Taxes on income	12,307	11,490	12,457	15,105	16,160	17,498	15,040	15,780	14,557	13,800
Extraordinary income — net	—	411	—	—	—	—	—	—	—	—
Net earnings	12,141	11,028	12,452	15,928	16,736	17,934	16,208	15,495	13,711	12,266
Net earnings per common share*	*64¢*	*60¢*	*72¢*	*92¢*	*96¢*	*$1.02*	*94¢*	*90¢*	*80¢*	*71¢*
Dividends Declared										
On preferred shares	$ 750	$ 323	$ —	$ —	$ —	$ 395	$ 412	$ 433	$ 454	$ 471
On common shares	6,430	8,157	9,747	9,741	9,728	9,639	8,682	8,331	7,078	7,078
Per common share*	*36¢*	*46¢*	*56¢*	*56¢*	*56¢*	*56¢*	*51½¢*	*50¢*	*42½¢*	*42½¢*
Capital Expenditures										
On properties, plant and equipment	$ 21,836	$ 14,476	$ 13,332	$ 20,842	$ 30,418	$ 19,116	$ 15,008	$ 13,222	$ 9,729	$ 10,341
On logging equipment and development	2,818	1,722	2,271	3,730	1,204	771	950	891	594	1,666
On woodlands	58	6	1,615	—	—	—	—	—	—	—
Financial Position										
Current assets	$113,513	$ 97,978	$ 83,247	$ 71,156	$ 86,887	$ 71,377	$ 64,029	$ 65,886	$ 63,108	$ 61,092
Current liabilities	49,008	36,293	25,835	25,664	38,130	25,372	26,067	25,787	22,065	22,514
Working capital	64,505	61,685	57,412	45,492	48,757	46,005	37,962	40,099	41,043	38,578
Capital assets, at net book values	238,078	230,661	192,541	187,077	174,296	153,440	143,912	132,607	128,986	129,031
Investments and other assets	32,102	31,890	10,835	5,978	4,793	4,838	4,574	5,529	5,644	4,713
Deposit on sale of real estate	—	—	1,650	—	—	—	—	—	—	—
Long term debt, net of current portion	110,221	105,704	59,675	46,123	48,948	40,739	31,678	33,678	37,410	39,898
Deferred taxes on income	29,707	28,809	26,189	21,855	14,847	6,605	1,485	—	—	—
Equity of shareholders	194,757	189,723	173,274	170,569	164,051	156,939	153,285	144,557	138,263	132,424
Equity of Shareholders										
Equity of preferred shareholders	$ 10,062	$ 10,062	$ —	$ —	$ —	$ —	$ 8,990	$ 9,339	$ 9,908	$ 10,249
Equity of common shareholders	184,695	179,661	173,274	170,569	164,051	156,939	144,295	135,218	128,355	122,175
Outstanding common shares* (thousands)	17,863	17,855	17,405	17,405	17,374	17,365	16,971	16,667	16,653	16,653
Equity per common share*	$10.34	$10.06	$9.95	$9.80	$9.44	$9.04	$8.50	$8.11	$7.71	$7.34

*Calculation of net earnings per common share is based on the average number of shares outstanding during the respective periods. Calculation of equity per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split November 30, 1963.

Distribution of Sales by Markets



Distribution of Sales by Products

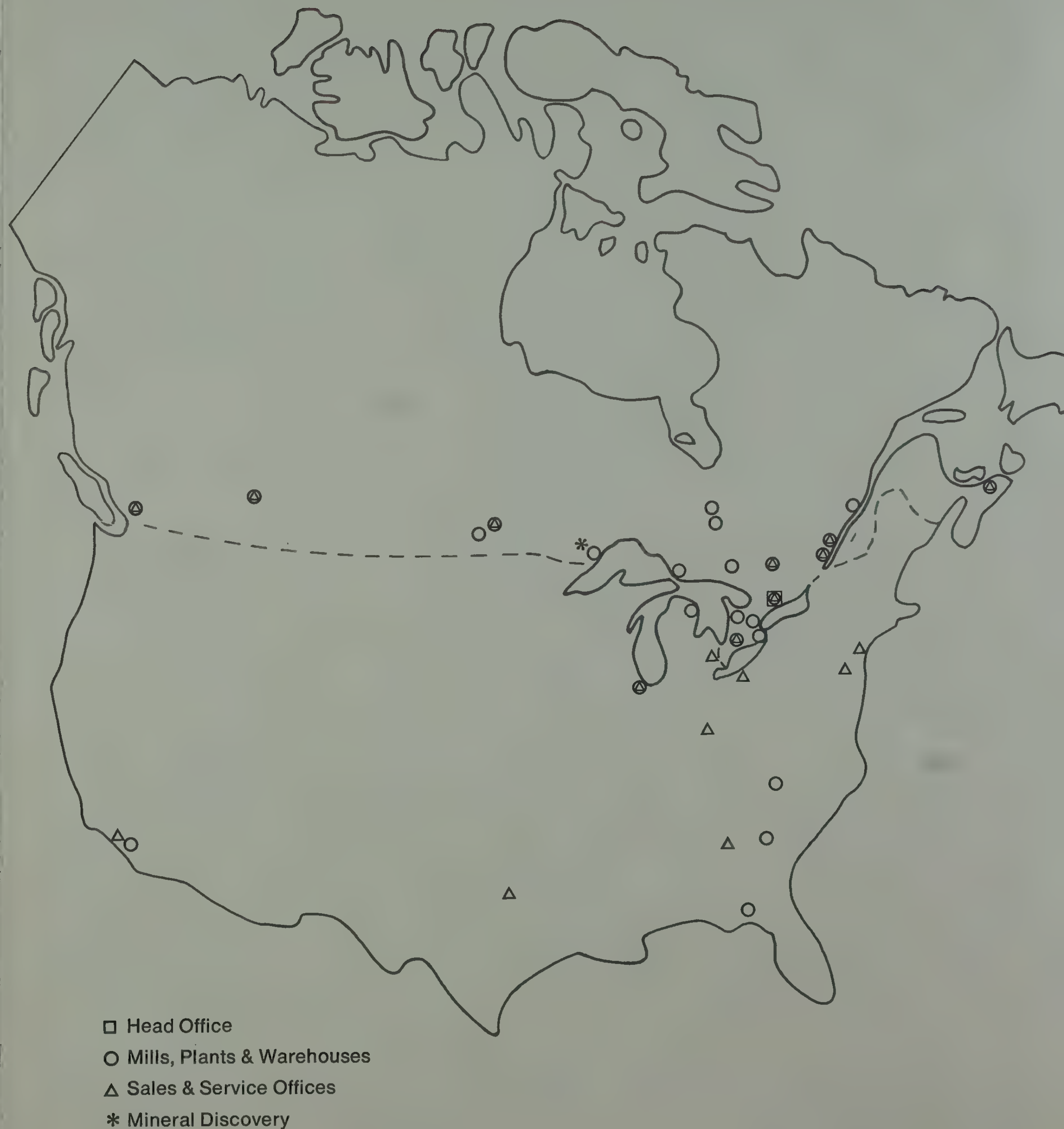


Primary Production of Paper, Pulp and Board Products in Tons

	Newsprint Paper	Fine and Printing Papers	Building Boards and Paperboards	Market Pulp	Total
1960	780,000	112,100	144,900	40,700	1,077,700
1961	742,000	117,300	145,800	44,400	1,049,500
1962	756,000	123,900	164,200	36,300	1,080,400
1963	740,600	132,100	177,300	39,900	1,089,900
1964	819,300	132,300	205,100	55,800	1,212,500
1965	829,300	136,700	227,300	46,800	1,240,100
1966	890,800	158,400	206,500	56,100	1,311,800
1967	825,900	164,100	208,400	43,800	1,242,200
1968	925,100	159,500	232,800	72,400	1,389,800
1969	1,078,300	171,200	244,300	69,800	1,563,600

Groundwood specialty papers are grouped in the above table with Fine and Printing Papers. In addition to these primary products, Abitibi manufactures corrugated containers, veneered panelings, decorative hardboard panels, and fine hardwood veneers.

Abitibi's Principal Business Locations




OUR
NEWEST
PRODUCT–
ABITIBI


ABITIBI
NEWSPRINT

"Knowing that you, our shareholder, are interested in anything that affects the soundness of your investment, let me tell you about our newest product — because the success we are going to have with it will have a measurable influence on the value of that piece of our company which you own." So stated Thomas J. Bell, our president.

The product is 'Abitibi'. It is a conceptual item. In many ways, it is an intangible item. Yet, in what it can do, it is very real.

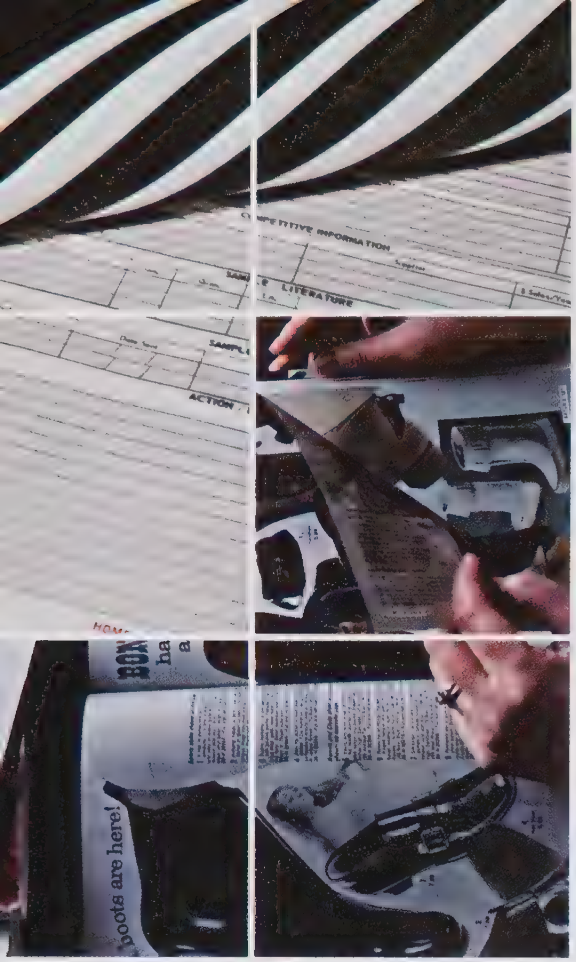
In these days of diversification, it is important for all of us not to lose sight of the fact that it is our most important product. More important than our newsprint or our fine papers or anything else we manufacture — vital to our existence as all these are. Over and above all these stands the basic corporate concept and the name by which it is known.

We refer to it as a 'new' product. It is just that, in the marketing sense. And it must *always* be a new product. We will always be in the introductory stage. We can never assume that this product is established, that it can be left to shift for itself.

Even more, as our companies intensify their marketing efforts and develop new marketing tools, so the organization as a whole must intensify its marketing of 'Abitibi'.

Much progress, of course, has already been made in that direction. It is not too many years ago that our name was virtually unknown in many parts of the United States. Now, we are becoming recognized as a major factor in the world of those who use the kinds of products we offer.

But this is only a beginning. Just as marketers go about developing and following through on an organized program of marketing an automobile or a can of soup, so we must define what we want 'Abitibi' to mean to people and then follow through on a program to get that meaning across.



The benefits of doing this are easily apparent. Given a well-defined image, the name brings with it to any product we produce now — or may produce in the future — a connotation of quality and integrity which will reassure the prospective buyer.

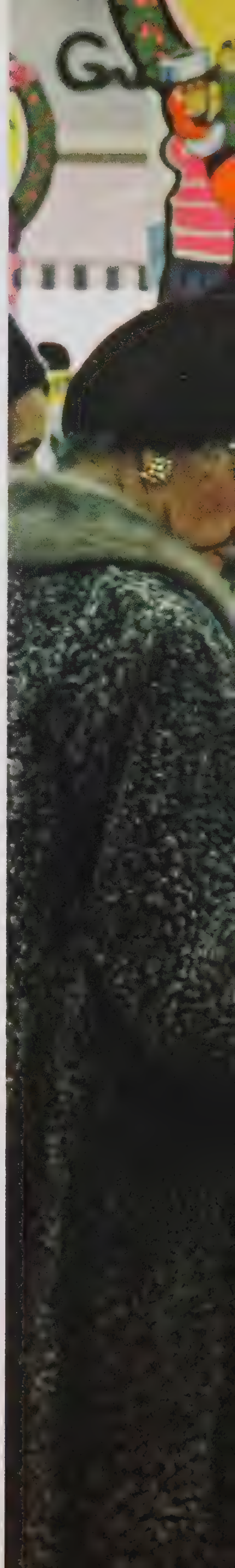
Our long-time friends in the newspaper field already have a sense of what the name means. They know that we stand behind our products, that we keep our promises. This is the result of a relationship that has grown up over many years.

Now, however, other products have taken us out into the general market place and, instead of dealing on a corporation-to-corporation basis, we find ourselves (as in the case of our board products) communicating on a corporation-to-individual basis.

Advertising helps us communicate more clearly in such a climate. But advertising is only one of the tools we can (and must) use. We must employ all of our other marketing skills as well.

In addition, we must strive to make everyone who has a stake in Abitibi's future a marketer of 'Abitibi'. Whether it be a senior vice-president, a stock-room clerk at a mill or you, the shareholder, we should all take pride in our company, its progress and its future — and seek every opportunity to let that pride be apparent. Those of us who are employed by the parent company or even its smallest subsidiary should be looking constantly for ways to *demonstrate* that that pride is justifiable. No customer's request is too small to warrant slighting. No suggestion for improving our service is too trivial not to be explored and adopted if possible.

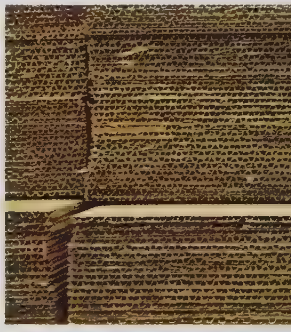
Abitibi is a customer-oriented company. The more opportunities we get to demonstrate that, the more our customers and potential customers will come to realize just what the word 'Abitibi' means.

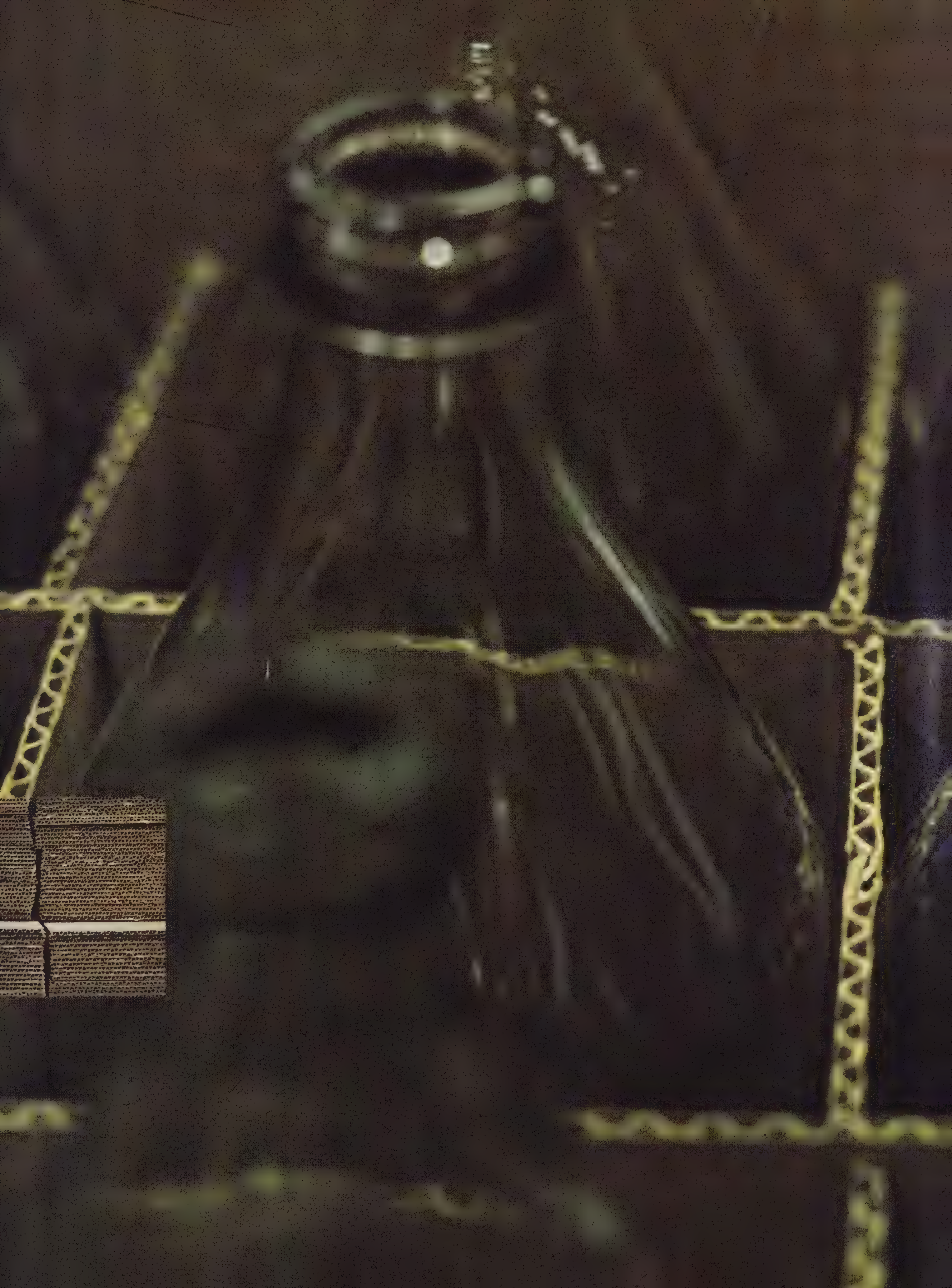


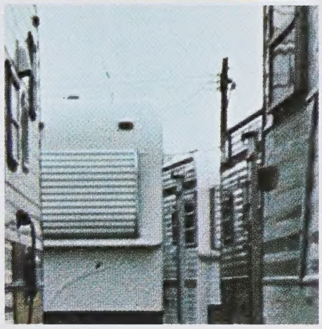
If any prediction can be made safely about where the business community is likely to experience the greatest change in the 1970's, it is that the shrinking dollar and increasing competition will lead toward the marketing function becoming more sophisticated than ever before.

Companies that have been production-oriented are having to become truly customer-oriented. No longer will it be of paramount importance just to produce a product and get it to market. Now the focus must be on what the customer *wants* produced or — even better — what the customer *will* want produced once analysis of problems and opportunities has created a marketing objective for the supplier.

As Harry Rosier, our Executive Vice-President, has said, *"Marketing, to me, is that area of energies a company puts out to determine what it is that our customers and potential customers want by way of products, distribution and service."* To this, George Brain, our Senior Vice-President, Fine Papers Group, adds, *"I think it is also the ability to move production as close to capacity as possible consistent with a good or satisfactory rate of return. But, in addition, marketing means that, within the limits of capacity, if your talents are what they should be you are able to outperform the industry both physically and financially. A very important component of marketing is to anticipate market needs and to recognize change."*







All of the senior executives at Abitibi have this same consumer-orientation; an awareness that in this modern age the company that progresses best is the one that serves best.

As Robert Gimlin, the Senior Vice-President of the Board Products Group explains it, *"Modern marketing is concerned not with the manufacturing of products but with the delivery of those products in the condition and the time and the form that the customer wants to receive them."*

Elliot Cottrelle, the Senior Vice-President, Sales (Newsprint and Pulp) sums up our corporate viewpoint when he says, *"You've got to get to know the customer first."*

Getting to know the customer — *his* needs and how best to fill them — *his* opportunities for growth and how best to help *him* grow — this is the challenge of the '70's for every company that is committed to deliver to its shareholders a program of constant expansion and development. To such a challenge, a company like Abitibi is well equipped to respond. There is little doubt that success is predictable where senior management is truly marketing oriented.

This is why we wanted to tell you about our 'new' product. A line of poetry asks: "Have you seen the wind?" No one ever has. Yet we have all felt the force of it. And in the days ahead we hope to make the force of our intangible 'new' product felt more and more as our company continues to market it, on your behalf, around the world.

Products, Sales Offices and Plants

Newsprint
Sales and Service
Abitibi Paper Sales Ltd.
Toronto and Montreal, Canada
Abitibi Papers Inc.
Dayton, New York and Chicago, U.S.A.
Clarendon Paper Sales Company
Atlanta, U.S.A.

Manufactured at —
Iroquois Falls, Ontario
Thunder Bay, Ontario
(two mills)
Sault Ste. Marie, Ontario
Pine Falls, Manitoba
Beaupre, Quebec
Augusta, Georgia

Groundwood Specialty Papers, Kraft Pulp and Corrugating Medium
Sales and Service
Abitibi Paper Sales Ltd.
Toronto and Montreal, Canada

Manufactured at —
Groundwood Specialty Papers —
Sault Ste. Marie, Ontario
Kraft Pulp —
Smooth Rock Falls, Ontario
Corrugating Medium —
Sturgeon Falls, Ontario

Fine and Printing Papers
Sales and Service
Abitibi Provincial Paper Ltd.
Toronto and Montreal, Canada

Manufactured at —
Thorold, Ontario
Thunder Bay, Ontario
Georgetown, Ontario

Envelopes and Stationery; School, Home and Office Supplies
Hilroy Envelopes & Stationery Limited
Toronto, Vancouver and Calgary, Canada
The Canadian Stationery Company Limited
Joliette, Quebec
Canada Envelope Company
Montreal, Quebec; Stellarton, N.S.
Canada Envelope (Ontario) Ltd.
Toronto, Ontario

Paper Merchants
Inter City Papers Limited
Whyte-Hooke Papers,
Toronto, Ontario
T. B. Little & Corbeil,
Montreal, Quebec

Building Materials
Sales and Service
Abitibi Corporation
Detroit, Chicago, Los Angeles, New York, Philadelphia, Cleveland, Atlanta and Dallas, U.S.A.
Abitibi Panel Products Ltd.
Toronto and Montreal, Canada

Manufactured at —
Alpena, Michigan
Chicago, Illinois
Cucamonga, California
Sturgeon Falls, Ontario
Durham, Ontario

Corrugated Containers
Sales and Service
Abitibi Containers Ltd.
Toronto, Pembroke and Montreal, Canada

Manufactured at —
Toronto, Ontario
Pembroke, Ontario

Principal Subsidiary Companies
Abitibi Paper Sales Ltd.
Abitibi Papers Inc.
Clarendon Paper Sales Company
Abitibi Manitoba Paper Ltd.
Abitibi St. Anne Paper Ltd.
Abitibi Holdings, Inc.
Cox Newsprint, Inc.
Cox Woodlands Company
Abitibi Provincial Paper Ltd.
Hilroy Envelopes & Stationery Limited
The Canadian Stationery Company Limited
Canada Envelope Company
Canada Envelope (Ontario) Ltd.
Inter City Papers Limited
Abitibi Corporation
Abitibi Carolina Corporation
Abitibi Florida Corporation
Abitibi Panel Products Ltd.
Abitibi Containers Ltd.

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